

Our passing reference last week to the 1985 Simply Red hit proved to be fairly prescient. The fact that equity markets managed to finish only marginally lower on the week camouflages the turmoil and uncertainty that was present in ever-increasing quantities. Late last Friday week the Fed extended a \$200bn loan facility to the market, and then again on Monday a further \$230bn was arranged by the Fed and a number of central banks. Markets rallied and the Dow recorded its biggest one day gain since March 2003. Hopes were high that this signalled a bottom of the current market uncertainty since March 2003 was the low point from which markets advanced for the next 5 years. Unfortunately as we have said many times before during this period of uncertainty, the difficulties in the market are not easily fixed and the Bear Stearns rescue on Friday highlights the seriousness of the current crisis. The contagion from the sub-prime fall-out has well and truly spread into the broader financial system to such an extent that reversing the situation is becoming more difficult. The Fed may well now cut its Fed Funds rate by 1% this Tuesday, but whether this will do anything to reverse the current financial market difficulties is debatable. The speed at which the Bear Stearns issue deteriorated has created a climate of fear that interest rate cuts alone will not cure and highlights the risks that remain. With all the leading US investment reporting results this week, we may see if S&P were correct when they said the worst of the write-downs had passed. For the sake of the market and more importantly the Fed, let's hope they're right.

TRADING IDEAS, EARNINGS & PREVIEWS

CRH

Price: €22.66
P/E: 8.2x
Div: 3.0%
Target: €33.00

Fundamental view : Last week, **CRH** announced the acquisition of Pavestone, a major US producer of concrete paving and decorative stone products, based in Dallas, Texas, for an initial consideration of \$540m (€348m) including debt. Pavestone operates a network of 18 paver plants, which provides strong synergy potential with the 30 such paver plants which CRH's Architectural Products business currently operates. With the pre synergy acquisition multiple representing 8.3x 2007 EBITDA, post integration the deal should boost CRH's full year eps by c.1%.

Next catalyst : As a result of CRH's recent unchanged 2008 earnings outlook, our eps forecast remains unchanged at €2.75, representing further 2008 earnings growth of 5%. We see further 7% eps growth in 2009 to €2.95, as increased synergies start to be generated from the group's €2.2 bn acquisition spend over the last 12 months. CRH is currently trading at 8.2x 2008 eps of €2.75 and at 7.7x 2009 eps of €2.95, a discount of c.20% to its European peers and a discount of c.40% to its US peers.

Chart view : The €22-€27 range of the last 5 months continues to provide trading opportunities. Stock is well supported and any weakness towards the lower end of this range should be used as a buying opportunity.

BUY

IN&M

Price: €1.81
P/E: 9.39x
Div: 8.3%
Target: €2.50

Fundamental view : Last week, we added **Independent News & Media** to our Dolmen Dozen list of top 12 stocks, replacing Coca-Cola, primarily as it provides better value and a higher dividend yield at current levels. On Thursday fortnight, 27th March, it will announce its results for the year ended 31/12/07. We are forecasting revenue and earnings per share of €1.7 bn and 19c respectively to be announced, representing year on year increases of 3% and 10%. The revenue growth will be driven by 4% advertising revenue growth and 1% circulation growth. Irish advertising revenue is still expected to show high single digit growth, with strong recruitment and retail advertising more than offsetting a slowdown in property advertising.

Next catalyst : The group's final dividend per share of c.9.13c is expected to go ex in mid April, which alone represents a yield of c.4.7% on the current 181c share price. With further 10% dividend per share growth expected in 2008 to 15.1c, the expected 2008 dividend represents a yield of 8.3% on the current share price. INWS' stronger than sector average earnings growth of c.10% for 2007 and 2008 also warrants a premium valuation, even though at 9.2x consensus 2008 eps of 21c, the shares continue to trade at a discount of c.16% to the current European newspaper sector average of c.11x. The above average probability of further major shareholder stake-building provides another potential positive catalyst for the share price.

Chart view : Downtrend continues with stock failing to hold the important €2 area. A break of trend resistance at €2.15 is needed to turn chart sentiment positive. Long-term support at €1.75/€1.80.

BUY

Pair Trade:
Long Ryanair
Price: €2.71
P/E: 8.5x
Short Easyjet
Price: 373p
P/E: 9.2x

Fundamental view : The low cost airline sector received some support from last week's UK budget, with the announcement that air passenger duty will be replaced by a tax per aircraft from 1st November 2009. This will be a significant competitive advantage for the low cost airlines which operate at higher load factors and denser configurations than the flag carriers. Under the current system, passengers pay £10 on short haul flights, but under the new system this could reduce by 50% per passenger to c.£5 for the low cost airlines, and could increase by 50% per passenger to c.£15 for the flag carriers. **Easyjet** and **Ryanair** are now trading at 9.2x and 8.5x 2008 eps of 40p and 31c respectively. Even though as a result of the current discounting, the yield outlook for both airlines remains very competitive over the coming months, Ryanair's substantially stronger operating margin (c.20% versus c.9% for Easyjet) leaves it better placed to continue to be profitable during this period despite the twin pressures of higher fuel and fare discounting.

Next catalyst : Ryanair's upcoming share buyback programme of up to €200m, which is expected to be completed between now and 5th June, could act as a near term support for its share price from current levels. As a result, our view is that there is the potential for some significant short term relative outperformance from Ryanair, and we continue to recommend a pairs trade at current levels within the European airline sector through a **SHORT** position in Easyjet and a **LONG** position in Ryanair. Both share prices fell by c.5% yesterday.

Chart view : Ryanair may be oversold in the short-term but is going to struggle to sustain any move to the upside. Easyjet is failing to hold the key 400 area and significant losses are expected.

Vodafone

Price: 149p
P/E: 12.5x
Div: 4.8%
Target: £2.00

Fundamental view : **Vodafone's** shares have fallen by 20% since the beginning of the year underperforming the FTSE by 5%. We believe that this underperformance is overdone and offers an excellent buying opportunity given the defensive characteristics that the company's shares offer along with its emerging market growth prospects. To combat slowing growth rates in European mobile Vodafone has been increasing its exposure into high growth economies including India and Turkey with c. \$15bn worth of purchases. Vodafone currently trades 12.5x forward earnings providing a dividend yield c. 4.8%.

Next Catalyst : The next major catalyst for Vodafone will be on 27/05/08 when the group is due to report its fiscal full-year 2008 results. We expect the company to report a 9% rise in EPS to 12p with revenue increasing by 13% to £35.2bn. We also expect the company to issue a positive outlook for its 2009 financial year given its strong emerging market growth prospects.

Chart view : The 162 level is key and a break above this area is needed to improve chart sentiment. Caution required.

BUY

Nokia

Price: €20.14
P/E: 12.0x
Div: 2.6%
Target: €26

Fundamental view : **Nokia** is the largest supplier of mobile phones throughout the world. Over the last number of years the company has been increasing its focus on selling lower-grade phones to emerging markets. While the group's average selling price per phone has been falling, volumes have increased significantly a trend that we see continuing. Nokia has a strong balance sheet with €11bn of cash, a prudent position to be in given current turbulence in credit markets. Nokia trades at an attractive valuation of 12x forward earnings despite being on track to generate 16% earnings growth in 2008 and 10% in 2009.

Next Catalyst : The next catalyst for Nokia is due on 17/04/08 when the group is due to report its first quarter results. We expect Nokia to again produce consensus beating results due to its significant emerging market exposure (35% of group revenue generated in the Asia-Pacific region and China). The company should be well insulated from the slowdown in the US with only 10% of revenue generated there.

Chart view : Stock is sitting on key support in the €20 area.

BUY

EARNINGS: **MON**: (HeidelbergCement, FY Accounts Release) (Wolsely, H1) (Legal & General, FY) (BMW, Annual Accounts) **TUES**: (Goldman Sachs, Q1) (Lehman Bros, Q1) (Debenhams, H1 Sales Update) **WED**: (Nike, Q3) (Kesa Electricals, Interim) (Morgan Stanley, Q1) (Qualceram Shires, FY) **THURS**: (Investec, Investor Update) (Fedex, Q3) (Saint-Gobain FY)

ECONOMIC: Tuesday (UK CPI & RPI, US PPI, Housing Starts & Building Permits, Fed Interest Rate Decision), Wednesday (UK BoE Minutes, Unemployment Data), Thursday (German PPI, Eurozone PMI, UK Retail Sales, US Jobless Claims, Philadelphia Fed)



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